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LASERS Responds to Inaccuracies in Pew Center on the States Report

Baton Rouge - The recently released report from the Pew Center on the States, "The Widening Gap Update," includes the Louisiana State Employees' Retirement System (LASERS) as one of the four Louisiana retirement systems in the analysis presenting "serious concerns." The report concludes that states continue to lose ground in covering long-term costs of pensions and retiree health care. In response to this report, LASERS is issuing the following information to correct the inaccuracies. Specifically, LASERS disagrees with the Pew report's conclusion that the State has not paid the required contributions to the system.

The Pew report is based on 2010 data. Louisiana's position has improved since the 2010 numbers. As of June 30, 2011, the funded percentage of LASERS is 57.6 percent, as opposed to 56 percent in 2010. The LASERS market return for that same time period was over 24 percent.

The unfunded accrued liability (UAL) of LASERS, about $6.4 billion of the $18 billion total for Louisiana, is primarily the result of the system being created without adequate funding, decades of the State failing to fully pay its required employer contributions, and interest accruing on a back-loaded payment schedule. In compliance with a 1987 constitutional amendment, the State has consistently made its required contributions. Of course the 2008 Great Recession had a negative impact on system returns, on the UAL, as well as on our funded status. However, in examining historic returns, the system has kept pace with expectations.

The PEW report also fails to recognize the significant reforms that Louisiana has made in recent years.

In particular, the report suggests:

- *"Keeping up with the annual required contribution is perhaps the most effective way that states can responsibly manage their long-term liabilities for public sector retirement benefits."*

  Louisiana has made its annual required contributions, and the report's assertion that it has not, is inaccurate.

- *“asking employees to contribute a larger amount toward their pension benefits”*

  The employee contribution rate for rank-and-file new hires starting in 2006 was increased. Similar increases were also enacted for new hires in hazardous duty plans starting in 2011.

- *“increasing the age and years of service required before retiring”*

  This was accomplished for rank-and-file new hires starting in 2006.

- *“limiting the annual cost-of-living (COLA) increase”*

  LASERS pays a COLA only after it has met certain investment return criteria and the COLA has been legislatively approved. There is no automatic annual COLA.

- *“crack down on abuses, such as the practice of “spiking” final pay to get a larger pension check by including overtime pay and sick leave”*

  LASERS generally does not include overtime pay in calculation of pensions and has limited “spiking” for years, with the limit decreased to 15 percent for new hires starting in 2006.

The report also notes that, *“The reforms that states have enacted in the last three years mostly affect future state workers, as it is legally difficult to reduce benefits for current employees and retirees.”* The Louisiana Constitution recognizes that state employees have a contractual right in their pension benefits, and that benefits may not be diminished or impaired. Therefore, it is critical to discuss pension changes for current employees only in the context of keeping promises made to those employees.

If Louisiana wishes to decrease the liability it owes to the system, the State could make additional payments, other than the required contributions, to more quickly reduce the debt. However, the State is currently following a prescribed payment plan to satisfy its debt by 2029. LASERS is receiving the necessary annual payments from the State to satisfy its liabilities.

The issue of retiree health care costs analyzed in the Pew report is not the responsibility of LASERS, therefore it is not addressed in this response.

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